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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 2000-2001

Financial performance report for the biennium 2000-2001

Submitted by the Director-General

Reports on the utilization of financial resources for the biennium 2000-2001 for the regular and operational budgets.

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Introduction

1. In its conclusion 1987/19, paragraph (j), the Programme and Budget Committee requested the Director-General to submit each year to the Industrial Development Board through the Committee a clear and detailed financial performance report itemizing the utilization of financial resources. The present document presents a comparison for the biennium 2000-2001 of the budget estimates in terms of appropriations and income with actual expenditures and income. The information is provided for both the regular and operational budgets.

I. REGULAR BUDGET

A. Budget estimates for the biennium

2. The budget estimates for the biennium 2000-2001 presented in document GC.8/16 and approved by the General Conference in decision GC.8/Dec.17 consisted of appropriations for the biennium of $167,735,800 and income estimates of $34,826,200 (including cost reimbursement) on the basis of an exchange rate of US$ 1 = AS 12.90.

3. The present document thus presents the financial performance report on the basis of the programme and budgets for 2000-2001 approved in General Conference decision GC.8/Dec.17 and assessed on Member States.

4. In accordance with decision GC.8/Dec.17, appropriations and estimated income for the biennium are adjusted to take account of exchange rate variations experienced during the biennium. The application of the average exchange rate for the biennium of US$ 1 = AS 15.11385 to the revised appropriations and estimated income presented in table 1 resulted in a restatement of those items to $147,099,600 and $30,145,300, respectively.

B. Assessed contribution income for 2000-2001

5. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the biennium. The source of financing of the regular budget is the assessed contributions of Member States. Assessed contributions for the biennium 2000-2001 paid to the Organization as compared with the amounts assessed in accordance with General Conference decision GC.8/Dec.17 are as follows:

	Millions of US dollars
Assessed contributions receivable	118.2[a]
Assessed contributions received	110.2
Shortfall in collections	8.0 (6.8%)

[a]See document IDB.26/2-PBC.18/3, annex III, Notes to the financial statements, note 2 (a).

C. Comparison of budget with actual expenditure and income for 2000-2001

6. A comparison of actual expenditure and income with the revised budget estimates for the biennium is presented below:

Millions of US dollars

	Revised budget estimates US$ 1 = AS 15.11385	Actuals 2000-2001	Under-utilization	%
Expenditure	147.1	134.6	12.5	8.5
Income	30.2	21.9	8.3	27.4
Net	116.9	112.7	4.2	3.6

7. Comparisons of budget estimates with actual expenditure and income by major programme and major object of expenditure are presented in tables 1 and 2 respectively. Explanations of underutilization by major programme and major object of expenditure are provided in the following paragraphs.

D. Underutilization of the budget

8. The net underutilization of the budget of $4.2 million (3.6 per cent) comprised an under-expenditure on appropriations of $12.5 million (8.5 per cent) and a shortfall in income of $8.3 million (27.4 per cent). The major factor contributing to underutilization was the lack of sufficient cash resources throughout the biennium to implement the budget due to non- or late payment of assessed contributions. Savings resulted from delayed recruitment of staff and reduction in expenditure levels under travel, language and documentation services, printing, general operating expenses and other items mainly relating to joint and common services.

E. Financial implementation by major programme

9. The underutilization of the budget in most of the major programmes was mainly due to the lack of sufficient cash resources, as described in paragraph 8 above. Other savings resulted from UNIDO's initiative to reduce costs. The savings of $0.8 million (16.9 per cent) achieved under Major Programme A (Governing Bodies) resulted mainly from savings under staff costs in the Secretariat and the reduced volume of documentation and related printing costs. The overrun of $0.6 million (6.4 per cent) under Major Programme B (General Management) was attributable mainly to increased staff costs that were partly offset by savings in general operating costs of the UNIDO offices in New York and Geneva and public information activities. The underutilization of $2.5 million (7.1 per cent) in Major Programme C (Strengthening of Industrial Capacities) was mainly due to higher-than-budgeted vacancy rates

under established posts and underexpenditure under Industrial Development Decade for Africa (IDDA) supplementary activities and Regular Programme of Technical Cooperation, that were redeployed to other programmes, ad hoc expert group meetings, travel, printing, library and language and documentation services. The level of overrun reached in Major Programme D (Cleaner and Sustainable Industrial Development) amounts to $0.7 million (4.6 per cent) and resulted mainly from the redeployment of technical cooperation funds and IDDA supplementary activities from other programmes, partly offset by savings under travel, printing and language and documentation services. The underutilization of $2.7 million (10.7 per cent) in Major Programme E (Regional Programme) was mainly due to a large number of vacant posts in the field and underutilization of international travel of UNIDO Representatives and language and documentation services. Furthermore, more than half of the budgeted funds for IDDA supplementary funds as well as technical cooperation funds were redeployed to other programmes. The excess of expenditure over approved budget estimates under Major Programme F (Administration) mainly resulted from an increase in staff costs due to full incumbency of posts as compared with the budgeted vacancy rate of 5 per cent under the Professional and 3 per cent under the General Service category and due to higher actual salary and related common staff costs as compared with the budget standard rates. This latter symptom is a consequence of the higher-than-average age of administrative staff. Furthermore, operational continuity could not have been ensured if posts were left vacant since the repeated budget reductions downsized Administration to a level where there was no reserve capacity left to provide the required services to all stakeholders. The increased staff costs were partly offset by savings under joint and common services provided by other organizations resulting from the downsizing of UNIDO.

10. The underutilization of $9.1 million (25.9 per cent) in Major Programme G (Buildings Management) was mainly due to cost-saving measures resulting in a higher staff vacancy rate and savings under general operating costs, supplies and materials, acquisition of furniture and equipment and the essential requirements programme.

11. Reductions in expenditure in Major Programme G (Buildings Management) had a direct impact on cost reimbursement income. The reduced level of income under Major Programme E (Regional Programme) reflected the lower-than-anticipated financial contributions of Governments to the costs of UNIDO field offices.

F. Financial implementation by major object of expenditure

12. The underutilization of budgeted staff costs of $2.2 million (2.6 per cent) comprises:

	Millions of US dollars
Salaries	2.8
Common staff costs	(1.8)
Ad hoc expert group meetings	1.5
Other	(0.3)
Total underutilization	2.2

13. The underutilization of budgeted salary costs was mainly due to the higher-than-budgeted vacancy factors for Professional and General Service posts, which were partly offset by variations between actual and standard salary costs.

14. The following cost reduction measures were taken to reduce cash outflow and achieve expenditure reductions due to inadequate levels of cash resources:

(a) Restriction of external recruitment to posts with specialized expertise in priority substantive programmes or essential managerial functions;

(b) Substantially reduced utilization of ad hoc expert group meeting funds of 80 per cent of the appropriations;

(c) Restrictions on hiring of general temporary assistance staff;

(d) Cutbacks in documentation, reducing translation and related services together with printing costs.

15. Underutilization of travel of $0.5 million (21.9 per cent) resulted from a general curtailment of staff travel. The cutbacks for supplies and materials, replacement of furniture and equipment as well as the postponement of VIC maintenance work resulted in an underutilization of the budget for these objects of expenditure of $6.5 million (24.7 per cent).

16. The Regular Programme of Technical Cooperation and IDDA supplementary activities were nearly fully implemented. High priority was assigned to these activities during the biennium at the expense of some other activities.

17. The underutilization of other expenses of $3.5 million or 21 per cent was mainly related to joint and common services, in particular essential requirements of Buildings Management, security and safety services, medical services and conference services, including translation.

G. Income

18. The deficit of income over the budget estimates comprises:

Income in millions of US dollars

	Budget	Actual	Surplus/ (deficit)	%
Cost reimbursement income	28.7	22.0	(6.7)	-
Miscellaneous income	1.4	(0.1)	(1.5)	-
Total	30.1	21.9	(8.2)	(27.4)

The deficit in cost reimbursement income of $6.7 million is directly related to the underutilization of the budgeted gross expenditure for VIC operating costs and lower-than-anticipated contributions of Governments to the running costs of UNIDO field offices. Miscellaneous income as contained in the budget estimates approved in GC.8/Dec.17 of $1.4 million was slightly exceeded; however, it was more than offset by exchange losses, as detailed in the following table:

Millions of US dollars

	Budget	Actual	Surplus/ (deficit)
Interest income on cash balances	1.3	1.4	0.1
Income from sale of publications	0.1	0.1	-
Exchange losses	-	(2.2)	(2.2)
Other income	-	0.6	0.6
Total miscellaneous income	1.4	(0.1)	(1.5)

Of the $2.2 million exchange loss, $1.8 million ($1.6 million in 2000 and $0.2 million in 2001) arose from the revaluation as required under financial rules 110.6 and 110.7 of bank accounts held in local currency, and the remaining $0.4 million resulted from general transactions.

II. OPERATIONAL BUDGET

19. The operational budget is funded mainly from support cost income earned on technical cooperation project delivery and from technical services provided by the Organization. Support costs to be financed during the biennium from operational budget income were presented in the programme and budget document (GC.8/16) and approved by the General Conference in decision GC.8/Dec.17.

20. The financial results for the biennium are as follows:

Millions of US dollars

	Budget (1)	Actual (2)	Variance (3)=(2-1)
Technical cooperation delivery, excluding regular budget	218.0	148.1	(69.9)
Income earned on delivery for technical services	29.3	18.2	(11.1)
Cost reimbursement from host Governments	0.4	0.1	(0.3)
Miscellaneous income	0.1	0.4	0.3
Total income	29.8	18.7	(11.1)
Expenditure	28.8	17.3	11.5
Surplus/(deficit)	1.0	1.4	0.4

21. A comparison of actual expenditure with the budget estimates, as contained in document GC.8/16, is presented in tables 3 and 4 by major programme and major object of expenditure, respectively.

22. As can be seen in the above table, while actual technical cooperation delivery and income did not reach the budgeted level, a net surplus of $1.4 million was recorded in the operational budget for the biennium. The surplus was achieved by maintaining high vacancies under established posts and by restricting non-staff resource allocations to limited areas. During the biennium, the average vacancy factor was 40.2 per cent for Professional and 28.1 per cent for General Service posts in financial terms. The surplus of $1.4 million from the 2000-2001 biennium increased the combined operating reserve and fund balances in the operational budget from $1.6 million to $3.0 million at 31 December 2001.

III. ACTION REQUIRED OF THE COMMITTEE

23. The Committee may wish to take note of the information provided in the present document.

Table 1
Regular budget
Financial performance report for 2000-2001 by major programme
(In thousands of US$)

Major programme	Approved budget 2000-2001 a at US$ 1 = AS 12.90 (a)	Revised budget 2000-2001 at US$ 1 = AS 15.11385 (b)	Actual expenditure/income 1/1/00 to 31/12/01 (c)	Unutilized balance at 31/12/01 (d)=(b-c) (d)	Percentage (e)
Expenditure					
A. Governing Bodies	5,678.8	4,881.2	4,054.1	827.1	16.9
B. General Management	10,927.6	9,556.1	10,166.7	(610.6)	(6.4)
C. Strengthening of Industrial Capacities	40,654.6	35,316.7	32,802.4	2,514.3	7.1
D. Cleaner and Sustainable Industrial Development	17,133.6	14,844.7	15,534.8	(690.1)	(4.6)
E. Regional Programme	26,966.1	25,325.0	22,621.4	2,703.6	10.7
F. Administration	25,392.0	22,071.5	23,405.9	(1,334.4)	(6.0)
G. Buildings Management	40,983.1	35,104.4	26,005.5	9,098.9	25.9
Total expenditure	167,735.8	147,099.6	134,590.8	12,508.8	8.5
Income					
E. Regional Programme	1,015.2	1,015.2	661.7	353.5	34.8
G. Buildings Management	32,362.5	27,720.3	21,370.3	6,350.0	22.9
Miscellaneous Income	1,448.5	1,409.8	(147.3)	1,557.1	110.4
Total income	34,826.2	30,145.3	21,884.7	8,260.6	27.4
TOTAL	**132,909.6**	**116,954.3**	**112,706.1**	**4,248.2**	**3.6**

*Approved in decision GC.8/Dec.17

Table 2
Regular budget
Financial performance report for 2000-2001 by major object of expenditure
(In thousands of US$)

Major object of expenditure	Approved budget 2000-2001[a] at US$ 1 = AS 12.90 (a)	Revised budget 2000-2001 at US$ 1 = AS 15.11385 (b)	Actual expenditure/income 1/1/00 to 31/12/01 (c)	Unutilized balance at 31/12/01 (d)=(b-c) (d)	Percentage (e)
Expenditure					
100 Staff costs	97,337.3	85,959.7	83,736.4	2,223.3	2.6
200 Official travel	2,430.5	2,182.8	1,705.1	477.7	21.9
300 Contractual services	520.1	454.8	420.1	34.7	7.6
400 General operating costs	28,909.1	25,201.2	19,170.9	6,030.3	23.9
500 Supplies and materials	785.9	672.6	440.7	231.9	34.5
600 Acquisition of furniture and equipment	623.1	531.8	258.8	273.0	51.3
700 EDP non-staff costs	4,150.7	3,542.7	3,784.6	(241.9)[b]	(6.8)
800 Technical cooperation, including IDDA supplementary activities	13,875.6	12,043.3	12,033.8	9.5	0.1
900 Other expenses	19,103.5	16,510.7	13,040.4	3,470.3	21.0
Total expenditure	167,735.8	147,099.6	134,590.8	12,508.8	8.5
Income					
100 Staff costs	9,651.9	8,336.1	6,996.8	1,339.3	16.1
200 Official travel	7.2	6.3	1.5	4.8	76.2
400 General operating costs	18,965.3	16,336.0	12,135.5	4,200.5	25.7
500 Supplies and materials	206.5	176.3	113.5	62.8	35.6
600 Acquisition of furniture and equipment	315.2	269.0	136.0	133.0	49.4
900 Other expenses	4,231.6	3,611.8	2,648.7	963.1	26.7
Miscellaneous Income	1,448.5	1,409.8	(147.3)	1,557.1	110.4
Total income	34,826.2	30,145.3	21,884.7	8,260.6	27.4
TOTAL	**132,909.6**	**116,954.3**	**112,706.1**	**4,248.2**	**3.6**

[a] Approved in decision GC.8/Dec.17.

[b] This overrun results from the revaluation of the Austrian shilling portion of the approved budget estimates at the average rate of exchange of the biennium of US$ 1 = AS 15.11385 and the revaluation of outstanding obligations at the end of the biennium to the December exchange rate of US$ 1 = AS 15.4528. The budget rate of exchange of US$ 1 = AS 12.90 is applied when monitoring the expenditures during the biennium and thus, the expenditures remained within the approved budget level. Such bookkeeping losses result from the split-currency system and will not be happening in the future because UNIDO has moved to a single currency system in 2002-2003.

Table 3
Operational budget
Financial performance report for 2000-2001 by major programme
(In thousands of US$)

Major programme	Approved budget estimates 2000-2001 at US$ 1 = AS 12.90 (GC.8/Dec.17) (a)	Actual expenditure/income 1/1/00 to 31/12/01 (b)	Variance (c)=(a-b)
Expenditure			
A. Governing Bodies	-		-
B. General Management	987.0	278.6	708.4
C. Strengthening of Industrial Capacities	8,812.8	4,571.8	4,241.0
D. Cleaner and Sustainable Industrial Development	5,081.0	3,596.1	1,484.9
E. Regional Programme	7,902.6	4,667.6	3,235.0
F. Administration	6,046.3	4,172.9	1,873.4
G. Buildings Management			-
Total expenditure	28,829.7	17,287.0	11,542.7
Income			
E. Regional Programme	433.4	100.4	333.0
Miscellaneous Income	140.0	411.2	(271.2)
Total income	573.4	511.6	61.8
TOTAL	**28,256.3**	**16,775.4**	**11,480.9**

Table 4
Operational budget
Financial performance report for 2000-2001 by major object of expenditure
(In thousands of US$)

Major object of expenditure	Approved budget estimates 2000-2001 at US$ 1 = AS 12.90 (GC 8/Dec.17) (a)	Actual expenditure/income 1/1/00 to 31/12/01 (b)	Variance (c)=(a-b)
Expenditure			
100 Staff costs	27,386.9	15,526.6	11,860.3
200 Official travel	-	0.9	(0.9)
300 Contractual services		555.7[a]	(555.7)
400 General operating costs	1,442.8	1,203.8	239.0
500 Supplies and materials			-
600 Acquisition of furniture and equipment			-
700 EDP non-staff costs			-
800 Technical cooperation			-
900 Other expenses			-
Total expenditure	28,829.7	17,287.0	11,542.7
Income			
400 General operating costs	433.4	100.4	333.0
Miscellaneous Income	140.0	411.2	(271.2)
Total income	573.4	511.6	61.8
TOTAL	**28,256.3**	**16,775.4**	**11,480.9**

[a]Expenditures include the reimbursement of Montreal Protocol project administration activities to the State Environment Protection Administration in China and the reimbursement of support services of the Turkish Technology Development Foundation in Turkey.